

FACTORS IN THE DAIRY SITUATION

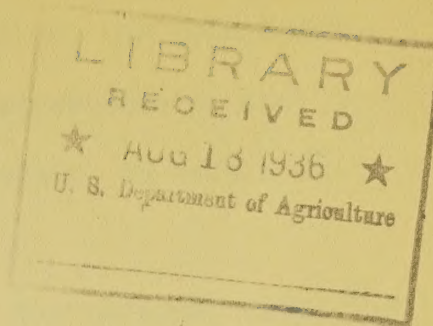
Address of Dr. E. W. Gaumnitz, Chief, Dairy Section,
Agricultural Adjustment Administration, to be delivered
at the meeting of the Dairymen's Cooperative Creamery of
Boise Valley, Idaho, August 14, 1936.

In discussing dairy problems with you today, I want to set forth not only some of the problems encountered from a local operating point of view, but also how the problems confronting the dairy industry on a national scale affect local groups.

Any cooperative has the major problem of efficiently processing and marketing its product. Of course, the prices which cooperatives can secure for butter and other dairy products depend in large part on the entire national dairy picture, hence the interest in the national dairy situation. One of the most important elements in the effective merchandising of a product is the matter of quality. Dairy cooperative associations have done a great deal along the line of producing quality products, and I am informed that this association has endeavored, and has been quite successful in this endeavor, in producing quality products through paying member-producers on the basis of grade and the like.

Another prerequisite of a strong cooperative is that it be well financed. It is just as important for a cooperative to be well financed as it is for any private firm. This cooperative, so I am informed, is in such a strong financial situation that it is able to anticipate its obligations. You are to be congratulated on having a management and membership that recognizes the value of adequate financing.

This association is to be congratulated upon its relationship to the central organization, one which is strongly financed, and is outstanding for its



economy of operation and experience in dairy marketing. Also, the relationship to the National Milk Producers Federation, with its wide experience in dealing with problems affecting the dairy industry on a national scale, is highly desirable.

Because of the interest which local groups have in the national situation, I wish to discuss the probable outlook for agriculture generally and for the dairy industry in particular, and, in addition, the activity undertaken by the Federal Government pertaining to agriculture, and the manner in which cooperatives fit into the picture.

Several elements in the outlook for agriculture over the next few years are exceedingly difficult to evaluate.

As you probably know, a considerable portion of our agricultural resources are devoted to the production of commodities which depend in part upon foreign markets for an outlet. For example, we used nearly 70 million acres of agricultural land for production for export during the period 1920 to 1930. The decline in exports during the years prior to 1933 brought the amount of land producing for export down to about 40 million acres. This marked decline in agricultural exports was associated with the world-wide business depression starting in 1929, and was made more severe by increases in trade barriers in important European markets and promotion of self-sufficiency in foodstuff production by European countries. Although available evidence indicates recent improvement in business conditions abroad, United States exports of major farm products have not increased materially from the relatively small volumes to which they declined after 1929. Wheat exports, which had been trending downward since the World War, were only about 10 percent of the 1929 volume in 1935; cotton exports in 1935, although showing a slight increase over 1934, were about 79 percent of 1929 exports, and lard exports, which in 1934 were 52 percent of the 1929 volume were only about 12 percent of the 1929 volume in 1935. The future course of our

foreign trade in agricultural products depends in part upon the continued improvement of business conditions in foreign countries, and in part upon the course of trade policies of foreign countries relative to the matter of tariff barriers, quantitative limitation of imports, and the like. In recent years there appears to have been a rather definite trend toward more rigid control of imports by foreign countries.

The decline in export markets, although perhaps not readily apparent, has nevertheless undoubtedly had a rather important effect upon the dairy industry. As you know, the prices of all farm products tend to be rather closely related. Dairy products prices, although unsatisfactory, were nevertheless, more favorable than the prices received by farmers for other agricultural commodities during most of the period following the World War. This caused farmers to expand their dairy enterprise in relation to their other enterprises, especially those adversely affected by the decline in export markets. The index number of the prices received by farmers for all farm commodities declined from 138 in 1929 to 57 in 1932. On the other hand, the index number of the farm prices of dairy products declined from 157 in 1929 to 82 in 1933, and as a matter of fact were relatively more favorable than farm prices generally during the period 1921 to 1929.

In 1934 and 1935, the index of farm prices of all farm prices was more nearly in line with dairy products averaging 91 and 108 in 1934 and 1935, respectively, as compared to 95 and 108 for dairy products in the same years. Although this increase has been due in part to adjustment programs, decreases in supplies due to the 1934 and present drought, and a general improvement in employment and business conditions, a few good crop years might easily result in low prices and increasing surpluses, unless offset by improved demand conditions both here and abroad. We can probably look forward to some increase in cow numbers and milk production in the next few years as compared to 1934 and 1935.

As far as the current situation is concerned, production conditions appear unfavorable because of the drought, which, although starting later than the 1934 drought, has now reached the critical stage.

The 1936 drought did not reach a critical stage so early in the season as did the 1934 drought. The ten year (1923-1932) average June 1 conditions of oats, barley and tame hay were, respectively 81, 83 and 81 percent of "normal". This year the June 1 conditions were 75, 75, and 76, compared with the extremely poor June 1 conditions in 1934 of 47, 45, and 54. Although the drought developed rapidly during the last half of June this year, July 1 conditions of these crops were 61, 61, and 65, compared with 40, 46, and 49 on July 1, 1934.

The drought had rather seriously injured the corn crop by July 1 this year, particularly in areas outside of the heart of the Corn Belt, and the average condition on that date was 73 and only slightly better than on that date in 1933 and 1934. However, weather conditions after July 1 generally have a great influence on the outcome of the corn crop. In 1933 the crop turned out to be fairly good, but in 1934 it was one of the worst failures on record. With the lack of rain and with high temperatures during July, drought conditions approached closely to those of 1934. It has damaged the corn crops beyond recovery in a large part of the Corn Belt and has resulted in a good deal of uncertainty concerning yields in the remainder of the Corn Belt.

Present (July 27) indications appear to be for a feed grain supply per animal unit for the 1936-37 feeding season about 20 percent below average (1926-33) and about 15 percent below 1935-36, but probably 10 percent above 1934-35.

While the hay supply per animal unit likely will not be relatively so low as the feed grain supply, it probably will be about 15 percent below average but about 20 percent above 1934-35.

The prospective low feed supplies will tend to restrict the production of all classes of livestock products for at least the next 12 months. The general

outlook appears to be for the general level of prices of agricultural products as a group, and especially of grains and livestock products, for the next 12 months to average at least as high or higher than the 1935 average, although feed prices will probably increase more rapidly than livestock prices.

The current dairy situation and outlook is also somewhat complicated by the drought. On January 1, 1936 there were 5.3 percent fewer milk cows on farms than on January 1, 1934, decreases occurring in all major regions varying from 0.1 percent in the South Atlantic to 9.5 percent in the West North Central. The June survey indicates that there are now about 1 percent fewer milk cows than a year ago. The present number of milk cows per 1000 people appears to be about in line with the longtime trend. Little change in cow numbers appears likely during the next year or two.

Milk production per cow probably will be the principal factor governing the course of total milk production during the next few years. During the last 12 years production per cow varied as much as 12 percent, increasing annually from 1924 to 1929 and then declining annually to 1934. Production per cow is influenced by changes in cow numbers, pasture and other feed conditions, numbers and prices of other livestock and demand conditions.

Production per cow during the first half of 1936 was well above early 1935 when feeds were scarce. With somewhat fewer cows, total milk production averaged 2 or 3 percent above the low level of the first half of 1935. However, on July 1, production per cow was 3 percent lower than last year and total production was averaging about 4 percent below last year but somewhat above July 1, 1934. Pastures continued to deteriorate rapidly during July and unless they show much greater recovery than in other recent drought years total milk production during the remainder of the pasture season probably will average substantially below last year and may be about as low as in 1934.

fall months probably will not exceed the low levels of 1934 and 1935 and that next winter it will probably be somewhere between the very low level of the 1934-35 winter season and the moderately low level of the 1935-36 season. Although feeds are not expected to be so scarce as in the 1934-35 season, there probably will be 2 or 3 percent fewer milk cows than in that season. Furthermore, with much higher prices of meat animals than in the 1934-35 season in prospect, there probably will tend to be a relatively stronger demand for feeds for feeding hogs and beef than in that season.

During most of the last two years cheese production has been high compared with butter production. In the first half of 1936 American cheese production exceeded all previous years and was 14 percent above the 1931-1935 average while creamery butter production was 5 percent below that average. Cheese production so far this year has been high in all regions, and apparently has resulted from a favorable demand for cheese and an expansion of the cheese-making industry. American cheese production in June was the highest on record for the month at 11 percent above the previous June record in 1935.

Evaporated milk production, which has been showing a long upward trend, also has been high during most of the last two years relative to butter production. In the first half of 1936, production was 1 percent above 1935 and 13 percent above the 1931-1935 average. The June production was about the same as the record peak for June last year. While it is rather uncertain whether cheese and evaporated milk production will be maintained on such high levels relative to butter production as in the last two years, it seems likely that the production of both will continue on relatively higher levels than in earlier years.

The farm price of butterfat averaged 28.5 cents in 1935 and the highest since 1930. This represented a marked increase from averages of 18.8 cents in 1933 and 23.0 in 1934. During 1935 the price showed an unusually wide seasonal variation, declining from an average of 35.9 cents in February, when feeds were

scarce and production was low, to 22.3 cents in July when pastures were particularly favorable and production was high. The price increased to 34.9 cents in February 1936 and for the first five months of 1936 averaged about the same as in the same period of 1935. The heavier production apparently was offset by an improved demand situation.

The farm price of butterfat undoubtedly reached its seasonal low in May this year. With the development of drought conditions the price has increased and in June averaged 27.7 cents or 17 percent above June 1935. Judging from the recent increases in butter prices, the price of butterfat probably has averaged several cents higher in July than in June.

For the first 28 days of July the wholesale price of 92-score butter at New York averaged 33.4 cents compared with the July average of 24.6 cents, an increase of 36 percent.

The immediate outlook appears to be for butterfat and butter prices during the next few months to average somewhat higher than last year. However, it seems likely that the drought conditions already have been largely reflected in prices and it appears somewhat doubtful that prices next winter will show such marked increases from current levels as the unusually large increases of 12.6 cents in the farm price of butterfat and 13 cents in the wholesale price of 92-score butter from July to February last season.

The activity of the Federal Government relative to agriculture has been markedly expanded in recent years. The Capper-Volstead Act was passed only a relatively short time ago, and the period following the World War was replete with proposed legislation to aid agriculture, culminating in the Act setting up the Federal Farm Board, and a few years later in the Agricultural Adjustment Act and the recent Soil Conservation and Domestic Allotment Act. You are all familiar with the Agricultural Adjustment Act and the programs undertaken under its authority relative to production adjustments, benefit payments, and the like,

prior to the invalidation of these features of the Act by the United States Supreme Court. In addition to the benefit-payment production adjustment provisions of the Agricultural Adjustment Act, the Act and amendments thereto carry a number of provisions which were not before the Supreme Court for adjudication and are still operative, these being:

- (a) Provisions pointed to the regulating of the handling of agricultural products in interstate commerce, applicable to milk and certain other commodities. As far as milk is concerned, the major provisions of the Act provide (1) for the classification of milk according to the use made of it by handlers, and the fixing of minimum prices which handlers shall pay with respect to such use classes, and (2) several methods of prorating to producers the proceeds of sales to handlers.
- (b) The Jones-Connally Cattle Act of 1934, authorizing the appropriation of \$200,000,000 for the purpose among others of supporting and balancing the markets for the beef and dairy industries, of which authorized sum \$100,000,000 was appropriated, and authorizing the appropriation of \$50,000,000 for the purpose of eliminating diseased cattle and making advances to the Federal Emergency Relief Administration for the purchase of surplus dairy products for distribution through relief channels. was continued under section 37 of Public No. 320 as far as unexpended balances were concerned. Section 37 also appropriated \$10,000,000 for the purposes mentioned above, and in addition this latter sum can be used for experimental purposes pertaining to cattle disease eradication. Public No. 637, approved June 4, 1936, appropriated a total of \$29,714,000 for use in (1) eliminating diseased cattle, (2) the purchase of surplus dairy products, and (3) experimental work pertaining to elimination of disease in cattle.

(c) Section 32 of Public No. 320 appropriates for each fiscal year 30 percent of the gross receipts from customs duties the preceding calendar year, to be used to (1) encourage the exportation of agricultural products by paying benefits for such exportation or indemnification of losses sustained in connection therewith or by payments to producers in connection with that part of any agricultural commodity required for domestic consumption, and (2) encourage the domestic consumption of such commodities by diverting them from the normal channels of trade by the payment of benefits or other means.

At the present time, 21 milk licenses and orders are in effect in fluid milk markets, fixing minimum prices which handlers are required to pay for milk in accordance with use and specifying methods of prorating to producers the proceeds of sales to handlers. Also, a marketing agreement setting forth certain unfair practices and the like is in effect with respect to the dry milk industry, and there is a license covering the evaporated milk industry specifying the method of determining the minimum price to be paid to producers for milk delivered to evaporated milk plants and prohibiting certain unfair trade practices.

The elimination of diseased dairy cattle, primarily those infected with tuberculosis and contagious abortion (Bang's disease) has been markedly expanded through the use of funds appropriated for these purposes, noted previously. During the period July 1, 1934 to July 1, 1936, 4,255,466 herds, comprising 47,382,164 cattle, were tested for tuberculosis. Of this number, 540,536 cattle reacted and were removed. Indemnity payments totaled \$9,388,396 during this period. There were 683,270 herds, comprising 9,992,469 cattle, tested during this two year period for Bang's disease, and 838,114, or 8.4 percent of the total number reacted and were removed. There were 9,801 herds tested for mastitis and 28,439 affected with this disease were eliminated. Indemnity payments on Bang's disease reactors amounted to \$20,876,943, and on mastitis amounted to \$849,806,

under these programs.

The government has purchased surplus dairy products and distributed them through relief channels since August, 1933. As you no doubt remember, this activity was undertaken in August, 1933 in response to widespread demand that something be done to relieve the butter markets of the heavy surpluses which had accumulated at that time. During the period August, 1933 to April, 1934, the following volumes of dairy products were purchased:

(a) Butter - 45,769,000 pounds.

(b) Cheese - 6,346,132 pounds.

From May 1, 1934 to April 30, 1935, purchases comprised 16,175,759 pounds of butter, 11,580,441 pounds of cheese, 6,525,952 pounds of dry skim milk, and 37,595,984 pounds of evaporated milk.

From May 1, 1935 to July 16, 1936, the Government purchased 10,004,774 pounds of butter, 1,100,975 pounds of cheese, and 10,909,140 and 15,590,400 pounds of dry skim and evaporated milk respectively.

The total amount of money paid for these products during the two year period amounted to \$24,366,737. All of the products have been purchased through bids submitted on schedules, excepting about 4,700,000 pounds of butter that was purchased on the Chicago and New York Mercantile Exchanges.

The general objectives of the purchase program have been to purchase butter so as to remove surpluses that appeared to be exerting price depressing influences, and to secure needed supplies for families on relief.

There have been frequent requests that the Government be in the position of giving a greater degree of stability to the market by being placed in the position of a seller as well as a buyer. While this has not as yet been done, all dairy products purchased having been distributed through relief channels, it may be possible to work out something along this line in the future.

The Soil Conservation and Domestic Allotment Act of February 29, 1936, embodies the new program that took the place of that held invalid by the Supreme Court. The new act contains the following major provisions:

1. To preserve and improve soil fertility.
2. To reduce the exploitation, wasteful, and unscientific use of soil resources, and to promote the economic use and conservation of land.
3. To reestablish the purchasing power of farm income.
4. To take no measures calculated to reduce normal supplies of food and fiber, which a study of average conditions during the years 1920 to 1929 indicate will be needed for domestic consumption.

The problem of conserving the soil is being approached under the new Act by aiding farmers in shifting a portion of their land from soil-depleting to soil-conserving crops and in following certain well defined soil-conserving practices. The funds available for distribution to farmers in 1936 are to be paid for planting soil-conserving crops and using soil-building practices.

The first step in carrying out the program is for county and community committees to establish with the aid of the individual farmer a record of his use of land in 1935, dividing his total crop land into three parts: (1) soil-depleting, (2) soil-conserving, and (3) neutral. After being adjusted for shifts made in previous Federal programs the acreage of soil-depleting crops in 1935 is known as the soil-depleting base.

At the end of the season in 1936 after compliance has been checked and certified to the Secretary by the county committee, the farmer will receive a payment per acre (adjusted for yields on his farm) for each acre he has shifted from his soil-depleting base acreage to soil-conserving uses up to a maximum shift of 15 percent of his base. At the same time he will be paid for soil-building practices up to a maximum of one dollar for each acre of soil-conserving crops grown in 1936. To obtain these soil-building payments he must perform

certain practices which are designated as soil-building by the State committee, with the Secretary's approval.

In addition to the above general provisions bases are calculated and payments for shifting cotton, tobacco, and peanut acreage are made. Payments are also available to farmers for soil-conserving crops grown in connection with normal acreages of sugar beets, flax and rice.

In addition to the interest the dairy farmer should have in actively participating in the program as far as the circumstances affecting his farm are concerned, there appears to be rather widespread interest on the part of the dairy farmer relative to the manner in which the program may be expected to affect the dairy industry generally. This is a rather complicated problem and one that cannot be conclusively answered at this time. There are some who take the position that, although the program may materially increase the production of hay and pasture, this increase will tend to be partially offset by a reduction in other feed crops such as corn and oats, and other feed products such as cottonseed. Also it is contended that a substantial portion of the increase in hay and pasture will take place in sections of the country where rapid expansion of the dairy industry on a commercial basis is not likely to take place. On the other hand, there are others who contend that, over a period of time, the change in the character of the feed available will be conducive to an increase in milk production over the production that might have been expected without the program. While there are these divergent opinions on the subject, it appears reasonable to believe that a continuation of such a program will have little effect on total milk production during the next two or three years. However, the program may tend to result in heavier feeding of hay relative to concentrates, and may tend to result in relatively heavier production during the summer months.

Finally, I would like to discuss the place of the cooperative in the agricultural picture. I think I need to say little about the worthwhile work

done by cooperatives in improving the quality of their product, endeavoring to develop more efficient merchandising methods and the endeavor to secure more efficiency in our marketing system. The value of this work by the cooperatives is probably so well recognized that it needs little discussion here. As far as the national situation is concerned, cooperatives can render valuable service in the development of national policies. National policies are not just pulled out of the air. They are formulated in large part by those groups, largely producer groups, that are interested in the welfare of agriculture. Not only can the cooperatives render valuable service by enlisting their aid and experience in the development of national agriculture policy, and it is almost a foregone conclusion that we will have a positive agricultural policy of some sort for years to come, but they can also render salutary service in developing proper methods of administration of agricultural programs. The cooperatives, far from having only a passing interest in such matters, as a matter of fact should shoulder some of the grave responsibilities involved in such programs, and undoubtedly must do so if any given agricultural program is to be expected to attain any marked degree of success.

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